

# Private School Choice Programs

## The Reserve

Issued 06/2015

# Private School Choice Programs

## The Reserve

- Starting with the 2013-14 school year, new statutory language allows Choice schools to set aside a reserve to fund future eligible educational expenditures.

# Private School Choice Programs

## The Reserve

- Wisconsin Statutes: 119.23(4)(d)4 and 118.60(4)(d)4 permit private schools to accumulate up to 15% of the private school's operating and debt service costs related to educational programming in a reserve account and include any increase to that reserved amount in the department's determination of the private school's operating and debt service cost related to programming for that school year.

# Why have a reserve?

- Reserves funds for future educational programming expenditures.
- Increases the school's net eligible programming costs in the years the reserve is created or increased.

# The Reserve

- The ability to create, maintain, and/or increase the reserve is dependent on:
  - Net eligible program cost
  - Per pupil cost
  - Cash & Investment balance

All of these items are reported in the Financial Information Report (FIR).

# The Financial Information Report

- The FIR is a report that is required to be completed annually by the private school, audited by an independent CPA firm, and submitted to the DPI.
- The FIR includes the calculation of the net eligible program cost, per pupil cost, and the cash and investment balance.

# Net Eligible Educational Programming Costs

- Net eligible educational program costs (a.k.a. net eligible program costs) are the school's cost of providing kindergarten through grade 12 educational instruction and related services to enrolled pupils less any offsetting revenue.
- Offsetting revenues are defined in 118.60(4)(d)1 and 119.23(4)(d)1 as:
  - Fees charged to pupils for books and supplies used in classes and programs.
  - Rentals for school buildings
  - Food service revenues
  - Governmental financial assistance
  - Interest and other income resulting from the investment of debt proceeds

# Per Pupil Cost

- The per pupil cost is calculated by taking the school's net eligible program costs and dividing that by the all pupil FTE of the school (both Choice and non-Choice pupils). These amounts are found on schedule 2 of the FIR.
- Establishing a reserve will increase the per pupil cost.



# Cash & Investment Balance

Lines 1, 2, & 3 on Schedule 3B of the FIR.

## Schedule 3B: Net Program Assets June 30, 2014 and June 30, 2015

? ◀ Schedule information

		ASSETS	
Line	Item	June 30, 2014	June 30, 2015
Current Assets			
1	Cash		
2	Cash Held by (Due To) Operating Organization same legal entity as school		
3	Investments		
4	Receivables		
5	Pledge Receivables (b)		
6	Prepaid Expenses		
7	Anticipated FIR Adjustment from (to) State	0	
8	Other Program Assets (a)		
9	TOTAL CURRENT ASSETS	0	0

# Calculating the Reserve

- Initially, the school may reserve up to the lesser of:
  - 15% of net eligible program costs included in the FIR **OR**
  - The audited cash and investment balance included in the FIR.

# Calculating the Reserve

- Subsequent years:
  - The school must annually review the reserve to determine if adjustments are required.
  - You must reduce the reserve if the reserve amount is above the cash & investment balance.
  - Additions maybe made to the reserve up to the lesser of 15% of net eligible educational program cost on the audited cash & investment balance.

# Calculating the Reserve

- Example FIRST YEAR:

• Net eligible program costs	\$5,000,000
• 15% of net eligible program costs	\$750,000
• Cash & investment balance	\$800,000
• Maximum reserve amount in first year	\$750,000

- The maximum allowed reserve is the lesser of 15% of net eligible program cost or the cash and investment balance. In this example, the reserve balance could be up to \$750,000. For this example we will assume the school reserved the full \$750,000.

# Continued from year 1

- **Without Reserve:**

- Net eligible program costs \$5,000,000

- All and choice pupil count 700

- School's actual per pupil cost \$7,143

- Maximum voucher amount \$7,210

- Calculation figures grades K-8 only
    - Difference between maximum voucher amount and the school's per pupil cost:  $\$7,210 - \$7,143 = \$67$
    - Difference times the all pupil count (adjustment payment):  $\$67 \times 700 = \$46,900$

- The maximum voucher amount per pupil is \$7,210 and the school's per pupil cost is \$7,143. Without the reserve, the school would have an overpayment of \$67 for each pupil. The school would owe the DPI \$46,900 which is referred to as an adjustment payment.

# Continued from year 1

- **With the Maximum Reserve Amount:**

- Net eligible program costs      \$5,000,000

- Reserve      \$750,000

- Net eligible program costs  
with reserve adjustment      \$5,750,000

- School's actual per pupil cost      \$8,214

- Adjustment pmt=\$0 as the per pupil cost is \$8,214
    - Calculation figures grades K-8 only for this example

- The maximum voucher amount per pupil is \$7,210 and the school's per pupil cost is \$8,214. With this maximum reserve amount there is no adjustment payment because the school's actual per pupil cost is above the maximum voucher amount.
- The maximum reserve amount is not required, the school can use a lower reserve amount if they so desire as shown on the next slide.

# Continued from year 1

- **With a lower Reserve amount:**

- Net eligible program costs \$5,000,000

- Reserve \$100,000

- Net eligible program costs  
with reserve adjustment \$5,100,000

- School's actual per pupil cost \$7,286

- Adjustment pmt=\$0 as the per pupil cost of \$7,286 is above the maximum voucher amount of \$7,210.
    - Calculation figures grades K-8 only for this example

It may make sense to reserve only up to an amount needed to reach the maximum voucher amount. The school has the availability to use a lower reserve amount. In this example, even with a lower reserve the per pupil cost is still above the maximum voucher amount resulting in no adjustment payment to the DPI.

# Calculating the Reserve

- Example SECOND YEAR:

• Prior year reserve balance	\$750,000
• Net eligible program cost	\$6,000,000
• 15% of net eligible costs	\$900,000
• Cash & investment balance	\$800,000

- The maximum allowed reserve is the lesser of 15% of net eligible program cost or the cash and investment balance. Therefore, the maximum reserve amount could be \$800,000. For this example, assume the school increased the reserve to the maximum of \$800,000. This would increase net eligible program costs by \$50,000 in year 2.



# Calculating the Reserve

- Example THIRD YEAR:

• Prior year reserve balance	\$800,000
• Net eligible program cost	\$6,000,000
• 15% of net eligible program cost	\$900,000
• Cash & investment balance	\$700,000

- The reserve must be decreased by \$100,000 because the cash and investment balance is less than the prior year reserve balance.
- The \$100,000 would decrease the reserve balance as well as the net eligible program cost in year 3.

# Calculating the Reserve

- Example FOURTH YEAR:

• Prior year reserve balance	\$700,000
• Net eligible cost	\$4,000,000
• 15% of net eligible cost	\$600,000
• Cash & investment balance	\$700,000

- The reserve balance is less than 15% of net eligible cost but equal to the cash & investment balance. Because the reserve balance is equal to the cash and investment balance, DPI will allow the school to maintain the prior year balance as long as the balance is at or below the current cash and investment balance.

# Maximum Allowed Reserve

- Once you have entered in the cash & investment balances, net eligible costs (all costs and revenues), and prior year reserve balance, if any, the maximum allowed reserve will be calculated on the error report in the FIR.

?

14. Schedule 3B: Private School Choice Programs Reserve

OK

Maximum Allowed Reserve

700,000

# Choosing to Reduce the Reserve

- If the school has a prior year Reserve balance, the school may choose to reduce the Reserve balance by any amount in the current year FIR. This would decrease the current year net eligible program costs as well as the school's actual per pupil cost.

# Additional information

- Having a reserve balance is optional. It is not required of the program.
- Review the per pupil cost. If the per pupil cost is above the maximum voucher amount, increasing the reserve may not be advantageous.
- Once you have a reserve, it must be monitored annually to ensure the balance is compliant with the rules and regulations.
- Private School Choice Programs Reserve Bulletin: [http://sms.dpi.wi.gov/sms\\_mpinfbul](http://sms.dpi.wi.gov/sms_mpinfbul)
- Rules and law: [http://sms.dpi.wi.gov/sms\\_statsrul](http://sms.dpi.wi.gov/sms_statsrul)

# Questions

- If you have questions about the reserve or would like further information please contact a choice auditor:
  - Sherry Colstad by phone 608-266-2658 or by email at [sherry.colstad@dpi.wi.gov](mailto:sherry.colstad@dpi.wi.gov)
  - Andrea Kratz by phone 608-267-1291 or by email at [andrea.kratz@dpi.wi.gov](mailto:andrea.kratz@dpi.wi.gov)
  - Terry Casper by phone 608-267-9105 or by email at [terry.casper@dpi.wi.gov](mailto:terry.casper@dpi.wi.gov)